

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

Boston Edison Company)	
Cambridge Electric Light Company)	D.T.E. 03-121
Commonwealth Electric Company)	
D/b/a/ NSTAR Electric)	
)	

INITIAL COMMENTS OF THE MASSACHUSETTS

DIVISION OF ENERGY RESOURCES

On January 20, 2004, the Department issued an order opening an investigation (“NOI”) regarding the rate tariff proposed by NSTAR Electric ("NSTAR" or "the Company"). The proceeding was docketed as DTE 03-121. The Department simultaneously noticed the NOI and established a deadline of February 10, 2004, for initial comments and for the public hearing. After the public hearing held February 10, 2004, the Department extended the comment deadline to February 17, 2004. The Massachusetts Division of Energy Resources (“DOER”) hereby submits its initial comments in DTE 03-121.

In these comments, DOER 1) addresses the procedural background, 2) answers four questions posed by the Department specific to the rates filed, and 3) sets out our position asking the Department to consider cost causation, requesting generic treatment of standby rates to encompass all utilities (rather than just NSTAR), and urging a thorough review of benefits and incentive structures.

I. Procedural Background

On October 31, 2003, NSTAR filed tariffs to establish standby rates for customers with new on-site generation in its companies' service territories (Boston Edison Company, Cambridge Electric Company, and Commonwealth Electric Company). On January 16, 2004, after the Department had suspended the effect of the tariffs until June 1, the Company resubmitted "substantively identical tariffs."¹ The Company stated in the

¹ DOER notes that the footnote provided by the Company (January 16 Filing at page 1) does not reflect changes to the closed tariffs. In its October 31 Filing, the Company's tariff sheets proposed tariff numbers

January filing that the refiling was "in view of the passage of time since the filing, and in order to afford sufficient time for Department review and investigation."

It is important to put this proceeding into the larger context of the state's ongoing development of policy regarding Distributed Generation ("DG"). On June 13, 2002 the Department opened Docket DTE 02-38 regarding the implementation of distributed generation in the state of Massachusetts. On October 2, 2002, the Department issued an Order bifurcating the proceeding into two phases: Phase I addressing utility interconnection standards through a DG Collaborative process,² and Phase II considering both the appropriateness of new standby rates for customers installing DG as well as the role of DG in utility system planning.

On May 15, 2003, the DG Collaborative filed with the Department proposed Distributed Generation Interconnection Tariffs for uniform treatment of each of the utilities (codifying a consensus-based report filed on March 3). Generally, this document sets interconnection standards which will remove barriers to the development of all types of large and small on-site generation. But, most importantly, it simplifies the process for smaller installations while, at the same time, standardizing the steps for interconnection and removing existing uncertainty regarding costs and timelines.³

DOER and all other stakeholders have been awaiting an Order from the Department since the May 2003 filing of the Interconnection Tariff. Among other things, such an Order is expected to approve the proposed Interconnection Standard, create an Ongoing DG Collaborative, require a reporting system for new interconnections, establish an

237A, 238A, and 239A to cancel 237, 238, and 239 respectively. But, DOER sees that the January filing proposed tariff numbers 237C, 238C, and 239C to cancel 237B, 238B, and 239B respectively, with no mention of the existing tariffs 237, 238, and 239.

² That process included key stakeholders from industry, distribution companies, governmental and quasi-governmental agencies, customers, and public interest groups. DOER was a member of the collaborative, which was supported financially by the MA Renewable Energy Trust (MRET) and facilitated by Raab Associates.

³ It is important to note that the Interconnection Standards did not fully address interconnections to area and spot network systems and that the members of the DG Collaborative proposed ongoing tracking of interconnections to assess the appropriateness of proposing improvements after two years.

alternative dispute resolution process, and announce a schedule for Phase II of the proceeding.

II. The Department's Four Questions

DOER provides answers to the four questions posed in the Department's NOI, but at the same time recommends that the Department open up Phase II of DTE 02-38 to address these issues generically. The following are DOER's responses to the Department's specific questions.

(1) Whether the proposed standby rates ensure that customers with their own on-site, self-generation facilities pay an appropriate share of distribution system costs.

The proposed rates ensure that these customers pay more than their appropriate share. In particular, the rates assume minimal benefits to installation of DG. More importantly, the proposed rates treat DG differently than other use-reduction strategies, such as installation of energy efficiency equipment and demand response efforts.⁴ DOER recommends below that the Department determine the benefits from DG for the purpose of establishing generically the meaning of "appropriate share."

(2) Whether distribution companies should recover their costs through fixed or variable charges.

DOER generally supports moving distribution charges toward more fixed components. In the short run, few Local Distribution Company ("LDC") costs are variable. At the same time, there should be incentive mechanisms to allow long-run behavioral changes in costs. While the proposed rates favor a more fixed-charge approach, they would not create an opportunity for any savings to customers from installing DG. Finally, the Department's question points to broader questions of rate design than those applying

⁴ When considering the relevance of this point, the Department should consider the amount of DG installed since the Restructuring Act was passed. See also below.

simply to DG. As described below, cost causation is critical and has not been addressed by NSTAR's proposal. Instead, by converting significant variable charges to fixed, NSTAR would be greatly minimizing the existing avoidable costs, causing customers considering DG to decide against such applications.

(3) Whether standby rates should reflect embedded and/or incremental costs.

Rates should reflect both embedded and incremental costs and benefits. More importantly, rates should vary according to the size of the DG installation and not simply according to the size of the customer. In addition, as discussed below, NSTAR does not appropriately acknowledge the potential incremental benefits to the system ratepayers from installing DG.

(4) Whether distribution companies should offer firm and non-firm standby service.

LDC's should offer both types of services. DG can be both firm and non-firm. It should be up to the customers to pay for what they actually use. If customers are able to control their DG production to take advantage of presumably lower standby rates, they should be able to reap those savings. Similarly, LDC's should be able to account for non-firm customers in their distribution and transmission system plans.

III. DOER Proposes a Broader View of Standby Rate Review

DOER believes that the proposed rates do not provide an adequate analytical framework to examine the complexity of the distributed generation issue. Further, the NSTAR proposal does not reflect the progress made in other states in regard to standby rates and other requirements for distributed generation and its role in distribution system planning.

The proposed rate design is inappropriate generally but certainly for standby rates. DOER believes that distributed generation should be treated differently than supply to traditional, non-distributed generation customers. DG has a number of potential system

benefits that need to be included in the rate design. For example, LDC's in Massachusetts are currently subject to non-cost-of-service ratemaking and service-quality mechanisms. DOER believes that there is potential for utilizing these existing frameworks to create incentive structures that can promote DG as a valuable tool in utilities' system planning efforts to provide reliable, cost-effective service while providing necessary and rational cost recovery.

First, the proposed rates acknowledge only a small portion of the potential benefits of DG installation. Moreover, there is no systematic analysis of the types and levels of benefits and costs, which will differ based on the location and size of the particular installation. While these and other factors can result in different impacts on the LDC and the system, none of these differences have been examined.⁵

Second, the proposed rates are quite high and appear prohibitive in terms of promoting the installation of DG. Based on preliminary DOER analysis of two groups of customers with similar load profiles, one with distributed generation and one without, it appears difficult for a majority of customers considering DG equipment to make these investments cost-effective under NSTAR's proposed rates.⁶

Third, NStar's current rates (in Boston Edison's territory) feature declining block rates, which have been perpetuated in the proposed rates. Hence, reduction of load through use of distributed generation features few, if any financial benefits to customers with higher load levels, which reduces the viability and attraction of this type of an investment.

⁵ DOER notes that NSTAR has not provided any data that supports the conclusion that existing DG has resulted in a significant reduction in its revenues. To the contrary, the Department's most recent Annual Report Concerning Self-Generation states that "the aggregate reduction in electricity sales, including installations in 2002, remains negligible." (July 2003, Page 3.) That Report estimated that sales had been reduced by 0.538 percent for all Massachusetts electric companies as a result of DG installations since the passage of the Restructuring Act. NSTAR also has not provided a forecast for new installations going into the future.

⁶ For example, assuming a 200 kW DG installation and 300 kW peak demand, and use of DG at a 50% capacity factor, bill savings on the non-generation portion of the bill amounted to about 9% of the bill for the customer with DG. These potential savings are not enough to make installation of DG cost-effective.

A. Cost Causation is Critical

DOER believes that utility rate designs should reflect the actual costs of providing service to customers. Indeed, NSTAR also believes the same. (Direct Testimony of Henry C. LaMontagne at page 32, lines 21-22, and page 33, lines 1-3.) However, DOER believes that NSTAR has confused cost causation with revenue neutrality. As proposed, NSTAR's rates probably assure little change in collected revenues. DOER believes that DG-related rates should reflect the actual costs incurred by the utility to provide service to the specific DG customer. It is well known that approved rates are designed to recover total system costs and currently feature cross-subsidization. That is, given a cost-of-service study accompanied with an agreeable rate of return, customer classes are not allocated their true costs for a variety of reasons, including equity, rate shock, and fairness. DOER does not disagree with this approach, since these issues are important. However, DOER also believes that cost causation, especially in the case of DG investments, is also important. DOER submits that (1) current non-standby rates, which form the basis of the proposed standby-rates, are not cost-based and are not accurate measures of the costs incurred to provided DG, and (2) current non-standby rates are less accurate with each incrementally larger customer. None of these issues have been addressed in detail in NSTAR's proceeding.

B. Generic Methodology for the Calculation of Standby Rates

DOER has advocated for a generic process with respect to standby rates in the past. In DTE 02-38, DOER Intial Comments we stated:

"The Department has correctly identified the issue of DG charges as one that may create barriers to the realization of potential benefits of DG. Allowing each distribution company to apply its own subjective methodology for calculating the relative charges leads to inconsistent and possibly, arbitrary fees. In order to minimize the impact that relative charges have on the implementation of DG, all distribution company charges must be just and reasonable and must reflect the true cost of providing the associated

services. To ensure that all relevant charges are just and reasonable, DOER recommends that the Department institute a uniform, objective methodology for calculating these charges.⁷ All distribution companies should be required to utilize the same objective methodology in designing their respective charges, and all such charges should be incorporated into Department approved tariffs. Universal application of an objective, consistent methodology would level the playing field with respect to DG projects across distribution company service territories."

That view holds true today. DOER urges the Department to conduct an investigation into the methods for determining the size and scope of these and other benefits before approving the NSTAR filing.⁸ Such a methodology for determining those benefits should be ordered only after a complete review with input from all stakeholders and should be applied to each of the Distribution Companies as uniformly as possible. In addition to the above points, a generic proceeding would also prevent non-utility stakeholders from having to put on one direct case each for the three remaining LDC's.

C. Quantifying Benefits to Create Appropriate Incentive Structures

Once recognizing the values of all benefits and costs to participating customers, the utilities, and the ratepayers, the Department can then determine the proper incentive mechanism that should exist to guide the placement of DG and encourage the deployment

⁷ "DOER notes that there are a variety of different DG charges: auxiliary charges, exit fees, standby charges, backout charges and interconnection related charges and fees. In DTE 99-47 (the NEES/EUA Merger) the Department described a methodology acceptable for calculating auxiliary charges that DOER believes may be applied, as is, or modified, to exit fees, standby charges, and backout charges." DOER Initial Comments, DTE 02-38.

⁸ DOER would like to bring attention to the fact that NSTAR has an existing standby rate in effect in its Cambridge Electric territory (M.D.T.E. No. 237). This rate applies to all customers with alternative sources of power exceeding 100 kilowatts and supplying more than 20 percent of the customer's load. This is notable because the new standby rates for each of the NSTAR Companies have a threshold of 60 kilowatts with no "percent of load" threshold. DOER regards such a change in treatment to be not only the addition of new barriers in Commonwealth Electric and Boston Edison territories, but a reduction of an already overly punitive policy in Cambridge Electric's territory. The Department should recognize that the new proposed rates would be creating a new incentive mechanism that essentially creates an exemption for all DG below 60 kilowatts. DOER urges the Department to look closely at the ramifications of that policy on the development of beneficial technologies.

of beneficial technologies. DOER believes such a publicly noticed analysis must precede any standby rates proceeding.

The benefits that DOER believes the Department should consider include (but should not be limited to):

- Deferred costs of distribution upgrades;
- Impacts on energy costs (such as reduced energy clearing prices and reduced line losses during constrained periods);
- Reduced environmental and health impacts from certain technologies displacing energy from sources with higher emissions.

DOER recognizes that pursuant to M.G.L. c.164, section 94 and c.25, section 18, the Department faces a time constraint to accept or reject the proposed rates by August 1, 2004. Admittedly, embarking on an exercise to attempt quantifying system benefits from DG installations is a time-consuming activity. But, there is now a wealth of information available from DG-related activities in other jurisdictions. Much of the work has already been done identifying the elements that should be considered and quantified.⁹

Alternatively, the Department could take a two-step approach similar to that taken by the New York Public Service Commission ("NYPSC"). Standby rates have now been approved by the NYPUC and became effective February 1, 2004. As an additional step, the NYPUC is currently conducting a proceeding to address the benefits from DG. As part of its initial determination, the NYPSC adopted certain exemptions to the standby rates. For instance, the following are eligible for exemptions from the standby rates:

- ?? renewable energy technologies;
- ?? combined heat and power ("CHP") less than 1 megawatt, installed before May 31, 2006; and

⁹ Of note is the work of the Electricity Innovation Institute's Distributed Energy Resources Private/Public Partnership currently being conducted with assistance from EPRI and involving the following partners: California Energy Commission, New York State Energy Research and Development Authority, and the Tennessee Valley Authority. That process has been developing a spreadsheet tool that quantifies the costs and benefits of installing DG for the purpose of determining the economic viability for certain

?? any DG providing less than 15% of customer demand.

These exemptions clearly recognize that certain beneficial technologies should not face the barrier caused by standby rates and that system ratepayers will eventually receive a benefit from accelerating technology development. We urge the Department to consider similar exemptions in this proceeding.

IV. Conclusion and Recommendations

DOER urges the Department to refuse to approve, and to reject the tariffs NSTAR has filed in this proceeding, and instead pursue the generic standby tariff process that it initiated in 02-38. The Department should, as a part of that proceeding, require analysis of the benefits, systemwide and otherwise, that will accrue with further installations of distributed generation in the NE-ISO region. DOER believes there are numerous benefits from DG, and strongly recommends that the Department not permit NSTAR or any other distribution company to employ tariffs that effectively cancel out the majority of economic benefits from such installations.

Massachusetts Division of Energy Resources

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technologies. Also worth exploring are the policy considerations of the following states: California, New York, Texas, Arizona, and Illinois.

February 17, 2004

CERTIFICATE OF SERVICE

I, Robert Sydney, hereby certify that I have served a copy of the foregoing Initial Comments of the Massachusetts Division of Energy Resources on all parties of record in this matter, in accordance with the requirements of 220 CMR 1.05(1) (Department's Rules of Practice and Procedure).

February 17, 2004

Robert Sydney